

P 110939Z MAR 09
FM AMEMBASSY ULAANBAATAR
TO SECSTATE WASHDC PRIORITY 2730
INFO AMEMBASSY BEIJING PRIORITY
AMEMBASSY MOSCOW PRIORITY
AMEMBASSY SEOUL PRIORITY
AMEMBASSY TOKYO PRIORITY
MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY
NSC WASHINGTON DC PRIORITY
SECDEF WASHINGTON DC PRIORITY

C O N F I D E N T I A L ULAANBAATAR 000073

STATE FOR EAP/CM; STATE PLEASE PASS TO USDA AND USTR

E.O. 12958: DECL: 03/11/2019

TAGS: [PGOV](#) [PREL](#) [EMIN](#) [MARR](#) [RS](#) [MG](#)

SUBJECT: AMBASSADOR'S MEETING WITH PRIME MINISTER BAYAR

REF: A. A) UB 72

[1](#)B. B) UB 71

Classified By: DCM NICHOLAS M. HILL for reasons 1.4b and d

Summary

[1](#)1. (C) A range of issues came up during a two-hour lunch meeting between Prime Minister Bayar and the Ambassador March 10, including plans for a Mongolian deployment in Afghanistan, the recently concluded deal Mongolia worked out with the IMF, and also the political machinations involved in reaching an investment agreement with Rio Tinto over the Oyu Tolgoi copper mines. The Prime Minister also elaborated on a long-term goal he has to push through constitutional reforms after the Presidential elections in May. Regarding Mongolia's commitments on its Millennium Challenge Compact with the United States, Bayar acknowledged that follow up was proving difficult on the rail project, particularly in soothing sensitivities with the Russians who own 50 percent of UBTZ, Mongolia's railroad company. The Prime Minister expects to engage the Russians on MCC later this month when he visits Moscow, part of a trip that will take him to France, Germany, and Belgium. End summary.

Afghanistan Deployment

[1](#)2. (C) The Prime Minister confirmed that Mongolia was ready to deploy more troops to Afghanistan. The subject was getting continued high-level attention, including in Mongolia's National Security Council (NSC). He noted to the Ambassador that Defense Minister Bold was a big advocate of sending more troops to Afghanistan and the ministry had entertained various offers, including providing force protection for either a German or Polish contingent. The Ambassador expressed appreciation for Mongolia's past engagement in Afghanistan and its willingness to return. He noted that Washington had no official preference concerning which mission Mongolia should take on, but that it was extremely important to engage. The Prime Minister elaborated on some of the complexities that Mongolia would face in coming to a decision and agreed a pre-deployment visit to Afghanistan, as the Defense Minister had earlier suggested, would be useful. Bayar indicated he would probably hear more on the subject when he visits Berlin next week.

IMF Mission

[1](#)3. (C) The Ambassador congratulated the Prime Minister on the recently concluded agreement with the International Monetary Fund (IMF). The Prime Minister noted that the agreement, which followed the visit of an IMF team to Ulaanbaatar last week, involved some difficult decisions for Mongolia. (For more on the IMF agreement see refuels.) He said that pushing budget cuts through the parliament would be difficult and

politically charged but ultimately the parties understood the urgency of the matter. The Prime Minister said he hoped revisions to the budget could be completed this week -- the government's two key goals would be to restore some "fiscal stability" while also maintaining social stability. The Ambassador underscored U.S. support for Mongolia as it grapples with the difficult economic situation and said that in Washington we were working out how best to be responsive to Mongolia's needs.

Investment Agreement a High Priority

¶4. (C) Almost at the same time as the IMF visit, the government has been working to pass an investment agreement concluded with Rio Tinto over the Oyu Tolgoi copper and gold mines, a deal that has demanded major amounts of the Prime Minister's time and energy. Bayar told the Ambassador that passing the Oyu Tolgoi deal was a critical priority of his government. He had continued to be personally involved in making sure that it moves forward. He had faced much criticism over the deal but he generally maintained a "positive attitude" under the circumstances. The day before, the PM indicated, he had been engaged in extensive consultations with the various factions which had formed in parliament over the deal -- if approved it could be worth several billion dollars in the next several years and over \$125 million in the near term.

Presidential Elections/Constitutional Reform

¶5. (C) Instead of discussing the dynamics of the current campaign for the presidential election May 24, the Prime Minister described his longer term aspirations of bringing about constitutional reform in Mongolia. Much needed fixing, he said. He predicted that Enkhbayar would likely remain president for a second -- and, constitutionally, last -- term. This in turn would open a good window to reform the constitution to eliminate the direct, popular vote for president. Bayar had no fixed sense of how reform would unfold, but he favored moving to a parliamentary system with a weaker figurehead presidency selected by parliament. Mongolians have too many elections, he told the Ambassador. He also pointed to the need to refine parliamentary rules to improve the government's ability to enforce party discipline.

¶6. (C) Constitutional reform would be a complex undertaking, Bayar continued. He said he planned to move carefully in what would be a consensus-building process, adding that reform should also extend to the judiciary and legal system, including how prosecutors are selected. Bayar said that Mongolia has too many local jurisdictions, or aimags. Instead of 21, the country would be better off with six or eight. "Everyone agrees that the existing system is not good," he said. The courts are not independent enough, there is too much political influence. The Prime Minister told the Ambassador he would like to bring in outside help, including possibly inviting the Asia Foundation to play an important role, taking advantage of the experience the NGO has had in other emerging democracies. The important point, Bayar concluded, would be to make people in power responsible and accountable.

Millennium Challenge Compact

¶7. (C) The Ambassador closed the lunch with the Prime Minister by raising concerns we have about the progress of MCC implementation, in particular some delays in implementing the rail road and land registry projects. The Ambassador noted that the rail project, accounting for two-thirds of the \$285 million U.S. Millennium Challenge Compact in Mongolia, is facing obstacles. The Russian CFO of the joint Mongolian-Russian owned public rail entity, Ulaanbaatar Railroad Co. (UBTZ), is blocking progress on an audit required under the terms of the compact. The Prime Minister told the Ambassador he was aware of the problems posed by the

CFO and her Russian masters in Moscow. He noted that he had raised similar concerns at an earlier stage when he met Russian authorities in Irkutsk in January.

¶18. (C) The Ambassador underscored the need to move forward on all the MCC projects. MCC has clearly defined schedules and targets that must be met. He noted that the U.S. side has attempted to keep the Russians informed and offered to meet as often as necessary, but ultimately the Mongolian side cannot let MCC implementation slow because of Russian foot-dragging. The PM said that dealing with the Russians would be "difficult"; they do not understand the entire situation, but he would work on it. He predicted that satisfying the Russians was going to become a "big issue" moving forward. The bottom line is that UBTZ is in a "catastrophic position" right now financially and some "unpopular" decisions are going to have to be taken. He said he would doubtless have to raise UBTZ when he meets the Russians, including PM Putin, later this month in Moscow. (As former Mongolian Ambassador to Russia, Bayar is very well knownA in Moscow to the leadership.)

¶19. (C) On the other of the two MCC projects that were facing delays at the moment, the PM reassured the Ambassador that the key condition that would allow the land registry project to move forward would be met this week. An office building would be provided to allow land registry staff to do their jobs in servicing to up to 75,000 households in the Ulaanbaatar area. Under the terms of the MCC compact, the government was supposed to have provided the office space a year ago.

Upcoming Schedule

¶10. (U) The Ambassador outlined the upcoming bilateral calendar, including CBRGI political talks set for April 2-3 and TIFA economic talks for later. To the Ambassador's request that the Prime Minister meet with DAS John Norris when in country for the CBRGI, Bayar said he welcomed the opportunity. The Ambassador described the upcoming Gobi Wolf Disaster Preparedness exercise at the end of March in Ulaanbaatar that the two sides were working on. He said he welcomed Foreign Minister Batbold's plans to visit Washington, probably in June. It would be a good opportunity for the Foreign Minister to meet people in the new administration.

MINTON